

Review of GAAP's

GAAP's

- Generally Accepted Accounting Principles
- consist of 4 concepts (standard accounting terms) and 6 principles (rules of conduct)
- rules and guidelines used by accountants and to be followed with all business transactions
- published by the Canadian Institute of Chartered Accountants in a handbook

Concept: *Business Entity*

- a business' financial information must be recorded and reported separately from the owner's personal financial information

Concept: *Going Concern*

- a business is created and financial records are maintained with the expectation the business will exist indefinitely

Concept: *Accounting Period Cycle*

- changes in financial information (financial statements are reported for a specific period of time (one month, three months, six months, one year)

Concept: *Unit of Measurement*

- all business transactions are recorded in a common unit of measurement (Canadian based businesses – the Canadian dollar)

Principle: *Objective Evidence*

- each transaction is described by a business document that proves the transaction did occur (use of source documents – memorandums, cheque stubs, receipts, sales invoices, purchase orders, . . .)

Principle: *Realization of Revenue*

- revenue (income) from business transactions is recorded at the time the goods or services are sold (received) NOT when payment is made

Principle: *Matching Expenses with Revenue*

- revenue earned from business activities and expenses associated with those earnings are recorded in the same accounting period

Principle: *Historical Cost*

- the actual amount paid for or received from the sale of an item is recorded, NOT the perceived value of that item

Principle: *Adequate Disclosure*

- financial statements contain all information necessary for a reader to understand the business' financial condition

Principle: *Consistent Reporting*

- in the preparation of financial statements, the same accounting concepts are applied in the same way in each accounting period